

Owner Builder Construction Loans: The Three Imperatives

Owner Builder construction is a great way to build instant equity into your new home by eliminating the costs of a general contractor. In fact, cutting the overhead of a licensed general contractor can save an owner builder anywhere from ten to thirty percent on construction costs. That's tens of thousands of dollars in instant equity for an owner builder.

However, owner builder construction loans are a tricky animal. Not only are they very difficult to find, but they can also be a lot more complicated than the typical purchase or refinance loan. Indeed, owner builder construction loans can be a lot more complicated than even a regular construction loan.

Therefore, if you are considering being an owner builder and managing the construction of your new home, then you need to make sure your owner builder financing has the following three features. These three owner builder construction loan features are imperative to the success of your project.

1. Owner Builder Loan Imperative One: A Line Item Budget with Unlimited Draws

Owner builders don't sign a contract with a licensed general contractor to build their home for them. Instead, an owner builder must put together a detailed budget of the costs to build their new home.

If you are building your home with a licensed general contractor, the construction loan will typically have a fixed number of construction draws to fund the project. For example, the loan may have only five draws that are issued based on the percentage of completion of the home. Therefore, the builder will have to fund the construction until a draw can be taken.

For owner builders, though, this is usually not possible. Owner builders can't fund construction out of pocket, relying on taking only five draws during the course of the project.

Instead, if you are going to be an owner builder, you are going to need the ability to take an unlimited number of draws during construction, based on the specific itemized budget that you put together during the planning phase.

With an owner-builder line item budget, you can take loan draws every step of the way. When you clear your land, you can take a draw. When you dig the hole for your foundation, you can take a draw. This way, owner builders don't have to carry the costs of construction out of their own pockets. Not having an itemized budget with unlimited draws is a recipe for disaster for owner builders.

2. Owner Builder Loan Imperative Two: The Owner Builder is in Control of the Draws

With typical construction loans, the general contractor will request the loan draws. Many times, the borrower will be required to sign for the draws in addition to the general contractor. However, even in this case, the general contractor has fifty percent of the control of the construction loan draws.

For owner builders, this is not an option. An owner builder needs to be in complete control of the loan draws. The sub-contractors should not be allowed to have any say over the draw process.

As long as the owner builder is the only person who can request the draws, without input from the sub-contractors, then there is no chance of the sub-contractors getting paid until the owner builder is fully satisfied with the work that they did.

If a sub-contractor gets paid prior to doing satisfactory work, the poor owner builder will never get his house built. Instead, you'll be out of money before the roof is on.

Therefore, if you want to be an owner builder, ensure your construction loan is designed to keep you, and only you, in charge of the construction draw process. If you can do this, then you will never have to worry about giving money to one of your sub-contractors before they have finished the job.

3. Owner Builder Loan Imperative Three: Minimizing Your Loan Down Payment

Every construction project has cost over-runs. Sometimes, those extra costs won't be fully covered by your construction loan. Therefore, it's imperative that an owner builder has some cash set aside to be fully prepared for any small cost overages.

If your owner builder construction loan requires no down payment, or even a very small down payment, then you can keep as much cash as possible

in your own pocket for the construction phase.

If you want to put the money into your construction loan to keep your monthly mortgage payments as low as possible and keep your equity as high as possible, then make sure your owner builder loan will allow you to pay down the balance at any point during construction.

Therefore, if you have no down payment, you can keep the money in your bank account to protect yourself from cost overages. And, when you are safely finishing your construction on budget, you can use that money to pay down the balance of your owner builder construction loan prior to converting over to your permanent mortgage. This way, you'll be protected and have a smaller monthly mortgage payment.

Most construction loans require at least a ten percent down payment. In fact, many require a twenty percent down payment. However, if you can find an owner builder construction loan that will require little to no down payment, you will be well ahead of the game.

It's possible for owner builders to minimize their down payments, because a good owner builder construction loan will cover up to 100% of their costs as long as there is a large spread between the cost to build and the finished value. (There should be a very large spread between the cost to build and the finished value if you are an owner builder, cutting out the overhead of a general contractor.)

Therefore, if you want to save tens of thousands of dollars by building your own home without hiring a general contractor, then you will need to find the right owner builder construction loan.

These loans can be difficult to find, and they are almost always a bit more complicated than a typical purchase loan. However, a good owner builder construction loan will always have these three essential features: a line item budget with unlimited draws, owner builder control over those draws, and a minimal down payment requirement.

About the Author

Chris Esposito provides owner-builder construction financing nationwide through his Owner Builder 101 program. Visit www.OwnerBuilder101.com to get all the information you need to be a successful owner-builder, saving tens of thousands on your next home. Or call Owner Builder 101 at (877) 876-3688.

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